

DEFINED BENEFIT PLAN

Retirement Planning

- Should begin as soon as you start your first job.
- Most people will spend an average of 25 years in retirement. The likelihood of retirees outliving their savings is increasing.
- The defined benefit plan will not provide 100% of your retirement income.
- Retirement savings is a shared responsibility involving the employee, employer and federal government. The federal government provides Social Security and Medicare, the employer provides employee benefits and the employee must provide personal savings.

Defined Benefit Plan

- Is an employer paid plan, employees do not contribute into the plan.
- Participants are automatically enrolled at the time of their employment.
- Is intended to provide retirement income for participants when they reach retirement age. It is not intended to be a life insurance plan.
- Provides a guaranteed level of income at retirement. It is based on a formula that includes salary, years of service and age.
- Participant must have at least four years of service. This is known as vesting.
- Benefit payments are paid by outside trustee. Current trustee is Northern Trust Company of Chicago, IL.
- Retirees are not guaranteed an automatic cost of living increase every year. However, the Navajo Nation does provide a 401(k) Plan to employees to supplement their retirement.

Retirement Terminology

- Final Average Earnings – the average of your monthly base pay during the three years in which it is highest. Normally, these years are those just before you retire. Used in formula that determines your monthly benefit amount.
- Benefit Service – the period of service, expressed as number of years and completed months, which is used in calculating your monthly benefit amount.
- Vesting – ownership of the benefits you earn under the defined benefit and 401(k) plans.

Eligibility

- Regular status employees
- Political appointees (as of 02/14/1989)
- Council Delegates, President, Vice President, Speaker (as of 01/12/1999)
- Certain participating entities of the Navajo Nation (NACE, NAPI, NFPI)
- Navajo Nation judges
- Certain participating certified chapters

How Benefits Are Determined

- Final Average Earnings x 2% x Benefit Service

Example: \$2,000 FAE x 2% x 30 years = \$1,200/mo.

Conversion of Unused Sick Leave

- At the time of retirement, unused sick leave may be converted into benefit service. For every 160 hour increment of unused sick leave at the time an employee is going from Navajo Nation employment to retirement, they shall be credited with 1 month of benefit service. This is provided as an incentive for near retirees to use sick leave wisely.
 - 160 hours = 1 month of additional benefit service
 - 320 hours = 2 months of additional benefit service
 - 480 hours = 3 months of additional benefit service
 - 640 hours = 4 months of additional benefit service

Purchase of Military Service Credit

- Effective January 1, 2011, active participants who have at least four years of vesting service and retiring participants will be eligible to purchase Military Service Credit for periods of intervening service in the U.S. Armed Forces.
- A participant is only eligible for this military service credit purchase if ineligible for military service retirement with any of the U.S. Armed Forces.
- A participant may purchase military service credit in one month increments for up to five years of military service.
- Participant must have ended their military service in good standing (e.g. honorable discharge) and will have to provide a copy of their DD214 form.

Types of Retirement

- Normal Retirement
 - Age 60 for regular employees.
 - Age 55 for commissioned law enforcement officers.
- Early Retirement
 - Age 55 to 59 for regular employees, with a 5% reduction for each year before normal retirement.
 - Age 45 to 54 for commissioned law enforcement officers, with a 5% reduction for each year before normal retirement.
- Disability Retirement
 - Only if not of early retirement age.
 - Must be vested.
 - Must qualify for Social Security disability.
 - Disability date must coincide (match) with termination date.
 - Benefit is reduced for each year before normal retirement.
- Pre-Retirement Spousal Death Benefit
 - Benefit provided to participant's surviving spouse in the event of death.
 - Participant must be vested.
 - Benefit begins the month following the participant's early retirement date.
 - Surviving spouse receives benefit equal to the 50% Joint & Survivor Annuity option.
 - Surviving spouse must provide a valid marriage license or common law affidavit.

Election Options

- **Straight Life Annuity**
 - Where participant receives a monthly benefit during their lifetime. Upon death, no further benefits are paid to any other person.
 - If participant is married, spouse must give consent and sign waiver.
- **Joint and Survivor Annuity**
 - Where participant designates a beneficiary to continue to receive a percentage of their monthly benefit in the event of their death.
 - May elect 50%, 75% or 100%, depending if beneficiary is a spouse or non-spouse.
 - Monthly benefit is reduced according to age of participant and beneficiary, and the percentage election.
 - If beneficiary deceases before participant, participant becomes the sole recipient. No designation of another beneficiary.
- **Ten Year Period Certain & Life Annuity**
 - Monthly benefit that is payable to the participant in a level amount equal to 92% of the Straight Life Annuity benefit until the participant deceases. In the event the participant deceases within ten (10) years of the benefit commencement date, the designated beneficiary shall receive a survivor benefit equal to the amount the participant was receiving, payable monthly until the date ten (10) years from the participant's benefit commencement date.
- **Fifteen Year Period Certain & Life Annuity**
 - Monthly benefit that is payable to the participant in a level amount equal to 84% of the Straight Life Annuity benefit until the participant deceases. In the event the participant deceases within fifteen (15) years of the benefit commencement date, the designated beneficiary shall receive a survivor benefit equal to the amount the participant was receiving, payable monthly until the date fifteen (15) years from the participant's benefit commencement date.

Once pension payments begin, changes in beneficiary or election option are not allowed.

Example of Election Options

	<u>Participant</u>	<u>Beneficiary</u>	<u>For Beneficiary</u>
Life (Unreduced)	\$1,200/ee	N/A	no benefits
50% Joint & Survivor	1,042/ee	\$521/ben	life time benefit
75% Joint & Survivor	978/ee	733/ben	life time benefit
100% Joint & Survivor	920/ee	920/ben	life time benefit
10 Year Period Certain & Life	1,104/ee	1,104/ben	covered for 10 years
15 Year Period Certain & Life	1,008/ee	1,008/ben	covered for 15 years